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Q2 2021 INVESTOR LETTER

August 3, 2021

Dear Investor,

Regarding the fund performance thus far in 2021, although not preferred, I am not overly concerned, and I believe you as the investor should not be either. Recall a substantial portion of my and my family's net worth is invested alongside you. The negative returns have been driven by non-sustainable factors and thus I believe will prove transitory. This will pass and the craziness will fade. Patience for us is the key ingredient here.

This is the message included with the May performance update and I thought a good way to begin the investor letter. **I am pleased to provide an update that as of August 3rd, the fund has rallied ~20% from the May 31st low. For the year, the fund is now down less than 2%,** which includes the first two trading days in August. I will provide the finalized July return during the normal monthly performance update. We still have ground to make up, although making progress.

The market silliness as I called it earlier puts the professional investor at a crossroads. Should the investor chase the craziness – prioritizing short-term returns with the knowledge (or ignorance) that the returns being chased will most likely fade into disappointment? Or does the investor prioritize long-term returns, with the knowledge that near-term underperformance could invite investor concern and scrutiny?

I have chosen what I believe to be the latter, prioritizing the long-term interest of the fund's stakeholders over short-term concerns. I have done this with full knowledge that I am taking the harder path, the one with more resistance. At Blue Hawk, the priority above all else is to build and grow long-term wealth.

Environments change, emotions pass, trends fade. What's left, professionally, are the results of our long-term decisions, by which we are ultimately judged.

Parallels to the Tech Bubble

We have already begun to see the environment start to turn, with "meme" stocks starting to come back down to earth. I am a student of financial bubbles and crashes, as I have studied each of the (domestic) financial crises from the 1800's until today. *The squeeze bubble* or *meme stock bubble*, although more contained than other periods of mania, shares many parallels with the tech bubble of '99/'00/'01 in my view.

To refresh the memory of the reader, I have included an excerpt of what the tech bubble was like. Replace "internet" with "meme" below and the description fits the current environment to a tee. *From the trusted source Wikipedia (I do not typically source from Wikipedia, but the description was by far the most succinct and illustrative).*

> The dot-com bubble (also known as the dot-com boom, the tech bubble, and the Internet bubble) was a stock market bubble caused by excessive speculation of Internet-related companies in the late 1990s, a period of massive growth in the use and adoption of the Internet.

> Between 1995 and its peak in March 2000, the Nasdaq Composite stock market index rose 400%, only to fall 78% from its peak by October 2002, giving up all its gains during the bubble. During the crash, many online shopping companies, such as Pets.com, Webvan, and Boo.com, as well as several communication companies, such as Worldcom, NorthPoint Communications, and Global Crossing, failed and shut down. Some companies, such as Cisco, whose stock declined by 86%, Amazon.com, and Qualcomm, lost a large portion of their market capitalization but survived.
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> As a result of these factors, many investors were eager to invest, at any valuation, in any dot-com company, especially if it had one of the Internet-related prefixes or a ".com" suffix in its name. Venture capital was easy to raise. Investment banks, which profited significantly from initial public offerings (IPO), fueled speculation and encouraged investment in technology. A combination of rapidly increasing stock prices in the quaternary sector of the economy and confidence that the companies would turn future profits created an environment in which many investors were willing to overlook traditional metrics, such as the price–earnings ratio, and base confidence on technological advancements, leading to a stock market bubble. Between 1995 and 2000, the Nasdaq Composite stock market index rose 400%. It reached a price–earnings ratio of 200, dwarfing the peak price–earnings ratio of 80 for the Japanese Nikkei 225 during the Japanese asset price bubble of 1991. In 1999, shares of Qualcomm rose in value by 2,619%, 12 other large-cap stocks each rose over 1,000% in value, and seven additional large-cap stocks each rose over 900% in value. Even though the Nasdaq Composite rose 85.6% and the S&P 500 rose 19.5% in 1999, more stocks fell in value than rose in value as investors sold stocks in slower growing companies to invest in Internet stocks.
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> An unprecedented amount of personal investing occurred during the boom and stories of people quitting their jobs to trade on the financial market were common. The news media took advantage of the public's desire to invest in the stock market; an article in The Wall Street Journal suggested that investors "re-think" the "quaint idea" of profits, and CNBC reported on the stock market with the same level of suspense as many networks provided to the broadcasting of sports events.

Sound familiar? To be clear, my point is not that the market is in a bubble. Many stocks are reasonably valued. My point is that “meme” stocks are a bubble.

Euphoria is an intense and unstable emotion. When a euphoric mood swings, the intensity of the emotion remains, the positive/negative quality of the emotion is what changes. The line between euphoria and fear is fine.

When stocks trade on emotion rather than fundamentals, seemingly big gains become big losses as all investors rush for the door at the same time. The “meme” stock craze, which has hurt us this year, looks quite similar to the dot-com bubble to me. Fortunately, both appear to be insulated pockets in the market.

If there is ever a time to short sell, now is the time with “meme” stocks being the target.

Short Selling and Timing

When short selling, the investor is making the bet that a stock will trade at a lower price at a future date; the investor is betting the stock is (1) overpriced and (2) will decrease in value. When is the time an investor can have the highest conviction a stock is overpriced and will decrease in value in the future? The answer is obvious – during bubbles/manic periods. That is the easy part.

The challenging part is timing when to enter the trade. Bubbles by definition imply stocks increase in value far beyond their intrinsic worth. Whenever an investor enters the trade, the chances are he or she is going to look very dumb for an extended period of time. *The saying is that stocks take the escalator up and the elevator down.*

The goal, however, is not to precisely time investments, in this case the deflation of a frothy pocket of the market. This is a fool's errand. The goal is to profit from overvalued securities, via short sales, and structure the investments in a way as to be able to maintain the position for when the bubble begins to deflate, an event whose occurrence is highly likely but timing unknowable. To say another way, patience and risk management are vital ingredients in successful short selling.

Worried about investor patience and having to present short-term returns, investors tend to avoid these trades. Or even worse, they lose patience and give up halfway through the bet.

But what if we do not care about looking dumb in the short run? W*hat if I have earned enough trust from investors to know that they will have faith in the positive long-term bets, even if they look ugly in the near-term.* In essence, I am spending some of the trust capital I have earned and stored in the piggy bank for a day like today. The balance of the piggy bank is not low, but it for sure is not unlimited as well. With a patient investor base, shorting these stocks becomes very compelling investments, albeit with very close risk management monitoring.

I have been adding exposure towards the end of Q1 and into Q2, after the stocks were up hundreds of percent and in some cases thousands of percent. The fund has had a tough year thus far because I was early, even after waiting to enter until after the stocks shot up. But the goal is not to time entrance perfectly, that is impossible. The goal is to find profitable trades that one can stay in throughout. To be frank, volatility was on the higher end of where I am comfortable. I closely monitored the situation and holdings every day, prepared to exit positions if needed.

One of the fund's core tenants is finding opportunities to trade volatility for long-term wealth creation. If there was ever a reason to short sell, this is it.

Additional Note

I want to get back to writing the letters centered around where I am passionate, which is interesting analysis on individual companies. This quarter I felt that a more direct letter to investors was warranted. I'm hoping to adjust going forward.

As always, I thank the fund's investors for their continued support. Please feel free to reach out with any questions.

Sincerely,

Jake DuBois, Managing Member

DISCLOSURES

Performance Calculations:

Valuations and returns are stated in US Dollars. The calculation of gross-of-fees returns reflects the aggregate performance of all investors minus trading commissions. The calculation of net-of-fees returns reflects the aggregate performance of all un-affiliated investors. This specific share class is subject to the deduction of a 1% management fee and 15% incentive fee with a high-water mark. Net returns are also net of operating expenses, which includes an administration fee, audit fee, and other miscellaneous operating expenses. We believe this return best reflects the performance a typical investor would have achieved. Please refer to the Private Placement Memorandum for a full list of operating expenses.

Past performance does not guarantee future results. Please see the Private Placement Memorandum for a full list of disclosures.

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